

FOREIGN POLICY ASSOCIATION

Information Service

Fact data on international questions for reference use

VOL. II—NO. 14

SEPTEMBER 15, 1926

CONTENTS

| | Page |
|--|------|
| Position of United States as Debtor Nation Before the War | 159 |
| Amount and Distribution of American Investments Abroad | 159 |
| Types of American Foreign Investments | 161 |
| Obligations of Foreign Governments Held By the United States | 161 |
| Relation Between Foreign Loans and Foreign Markets | 162 |
| Foreign Investments and Raw Materials | 163 |
| The Loan Policy of the United States Government | 164 |
| Supervision of the Department of Commerce | 165 |
| How Foreign Obligations Are To Be Repaid | 165 |
| The Future of Foreign Investments | 166 |
| Advantages and Disadvantages of Foreign Investment | 166 |
| Selected List of References | 167 |

Published bi-weekly by the FOREIGN POLICY ASSOCIATION, 18 East 41st St., New York, N. Y. JAMES G. McDONALD, *Chairman*; GEORGE M. LAMONTE, *Treasurer*; CHRISTINA MERRIMAN, *Secretary* Subscription Rates: \$5.00 per year; to F. P. A. Members, \$3.00

The International Credit Position of the United States

THE rapid transition in its international credit relations has placed the United States in a commanding position of influence and power in world affairs. Not only has the United States Government become the creditor for practically every government of Europe but American private bankers have come to share, if not to assume outright, the predominant position in financial matters so long held by the bankers of Amsterdam and London. Within the last eight years since the signing of the Armistice, the government of the United States and private American bankers, through their power to grant or withhold credit, have to a large extent conditioned the direction of European reconstruction and further extended American financial influence in Central and South America and the region of the Caribbean. This influence has applied not only to such well known and direct cases of American influence as the granting of post-armistice loans by the government of the United States to the Allied and other governments, the Dawes Plan, the restoration of the gold standard in England, and the funding of the war

debts, but also to the less conspicuous extensions of credit by American bankers and investors under the loose supervision of the United States Government.

The extension of American financial influence into all parts of the world has inevitably raised many serious problems of foreign policy that involve not only questions of economic expediency but also political and diplomatic problems as well. The purpose of this report, however, is not to attempt to criticize American foreign policy but to set forth the underlying economic facts in the credit position of the United States. What is the total amount of American investments abroad? What is the nature of foreign credit obligations to the United States? What is the policy of the government with reference to the granting of foreign loans? How are the debtor countries to meet their interest payments to the United States? What is the relationship between foreign investments and the expansion of American export trade? What is likely to be the future credit position of the United States? Whatever the future course of American policy may be

it must take into consideration these fundamental economic factors growing out of the changed international economic position of the United States.

A DEBTOR NATION BEFORE THE WAR

Before the war the United States was a debtor nation. From the beginning of its history until the outbreak of the war the United States relied upon English, French and Dutch investors for the capital required for development of new enterprises. As early as 1843 a committee of the House of Representatives reported that American State and local governments were then in debt to Europe to the amount of at least \$150,000,000. This was exclusive of the foreign money invested in private American enterprises. By 1880 the total American securities held by Europe amounted to about \$2,000,000,000 and by 1889 the amount had been increased to almost \$3,500,000,000. In 1914, according to estimates of the Department of Commerce, about \$5,000,000,000 of foreign capital was invested in the United States.

THE UNITED STATES AS A WORLD CREDITOR

The period of American investment abroad began toward the close of the 19th century. These early investments were confined for the most part to Canada, Mexico and the Caribbean region. At the time of the Russo-Japanese War Americans invested heavily in the securities of the Japanese Government. In the early years of the present century American investments abroad increased so rapidly that there was much public discussion of the United States taking a place along with England as one of the leading creditor nations of the world. This discussion was silenced by the panic of 1907 and the subsequent business depression. The United States did not actually become a creditor nation until after the beginning of the war. At the outbreak of the war the foreign investments of the United States were somewhat over \$2,000,000,000 while the investments of foreigners in the United States amounted to well over \$5,000,000,000 leaving the United States a net debtor to the extent of approximately \$3,000,000,000. After the outbreak of the war this situation was sharply reversed.

Between August, 1914 and November, 1920 every one of the leading governments of Europe had become indebted to the United States. The loans of the United States Government alone during this period amounted to more than \$10,000,000,000 and in addition many private loans were extended to foreign countries. The post-war disorganization of the European countries caused a continued heavy demand for American credit after the armistice. As a consequence American post-war investments in foreign countries have been made at the rate of approximately \$1,000,000,000 a year. The total amount of foreign securities floated in the United States between 1919 and 1925 is shown by estimates of the Federal Reserve Board as follows:

Total Foreign Securities Floated in the United States.*

| 1919-1925 | |
|------------|----------------|
| 1919 | \$ 681,707,000 |
| 1920 | 621,512,000 |
| 1921 | 675,317,000 |
| 1922 | 897,208,000 |
| 1923 | 398,219,000 |
| 1924 | 973,011,000 |
| 1925 | 1,200,000,000 |

AMOUNT OF AMERICAN INVESTMENTS ABROAD

It is not possible to determine with precise accuracy the total amount of American overseas investments. American investments in foreign lands are not only in the form of industrial securities and government bonds but also in the direct and tangible form of factories, real estate and claims to raw materials and it is very difficult to estimate the value of these holdings. According to the most reliable estimates made by the Department of Commerce the total of American private investments abroad at the end of 1925 amounted to more than \$10,500,000,000. The investment of foreign capital in the United States at that time was estimated at about \$3,000,000,000 leaving the United States a creditor on the balance of private accounts by about \$7,500,000,000. At the present time American private investments in other countries are probably in excess of \$11,000,000,000. In addition to these private obligations are the foreign government obligations held by the United States Govern-

* This is not a statement of the total amount of American investments during this period as it does not include direct investments or government loans.

ment, amounting in principal to \$11,763,-515,917. A rough statement of the total amount of foreign obligations held by the United States, both governmental and pri-

vate, using the statistics for 1925 for the private obligations and the principal of the government debts as the amount of the government obligations is as follows:

| | |
|---|-------------------------|
| Foreign government bonds held by American Investors | \$ 4,000,000,000 |
| Industrial securities held by Americans and the estimated amount of direct investments through the ownership of factories, real estate, etc. | 5,500,000,000 |
| Short-term loans | 1,000,000,000 |
| Total private investments | \$10,500,000,000 |
| Government debts | *11,763,000,000 |
| Total Foreign Obligations held by the United States | \$22,263,000,000 |

DISTRIBUTION OF AMERICAN PRIVATE INVESTMENTS

Almost 70 per cent of American foreign capital is invested on the American continents. Canada is the largest single debtor to

the United States in private accounts and Cuba and Mexico come next. The following table which is based on estimates of the Department of Commerce shows the growth and the geographical distribution of American investments for the years given:

| | 1900 | 1913 | 1925 |
|---------------------------|-----------------------|-------------------------|--------------------------|
| Canada | \$ 150,000,000 | \$ 750,000,000 | \$ 2,825,000,000 |
| Cuba | 50,000,000 | 100,000,000 | 1,400,000,000 |
| Mexico | 185,000,000 | 1,050,000,000 | 1,195,000,000 |
| Latin America | 55,000,000 | 150,000,000 | 1,615,000,000 |
| Europe | 10,000,000 | 350,000,000 | 2,500,000,000 |
| Asia and rest of world .. | 50,000,000 | 100,000,000 | 870,000,000 |
| | \$ 500,000,000 | \$ 2,500,000,000 | \$ 10,405,000,000 |

The amount and the per cent of the increase in private American investments

abroad since 1913 is shown for the various regions in the following table:

| | Increase in American Investment 1913 to 1925 | Per cent increase over 1913 |
|------------------------------|---|--------------------------------|
| Canada | \$ 2,075,000,000 | 276 |
| Cuba | 1,300,000,000 | 1300 |
| Mexico | 145,000,000 | 13 |
| Latin America | 1,465,000,000 | 976 |
| Europe | 2,150,000,000 | 614 |
| Asia and rest of world | 770,000,000 | 770 |

The relative amounts and the distribution of American investments in the various areas at the end of 1925 were as follows:

| | Total Investment | Per cent of total |
|--|-------------------------|-------------------|
| Canada and Newfoundland | \$ 2,825,000,000 | 27.1 |
| Latin America | 4,210,000,000 | 40.5 |
| American Continents | \$ 7,035,000,000 | 67.6 |
| Europe | \$ 2,500,000,000 | 24.0 |
| Asia, Australia, Africa and rest of world .. | 870,000,000 | 8.4 |
| | \$ 3,370,000,000 | 32.4 |

* The present value of the government debts is considerably below the amount of the principal; see page 000 of this report.

BRITISH AND AMERICAN INVESTMENTS IN CANADA

Canada, as the largest debtor of American private investors, affords an interesting example of the penetration of American capi-

tal. The amount of American capital invested in Canada is considerably larger than that of Great Britain. The following list shows the amounts of British and American capital invested in various Canadian enterprises:

| | American | British |
|--------------------------------------|------------------|------------------|
| Public securities | \$ 701,000,000 | \$ 450,000,000 |
| General industries | 540,000,000 | 145,000,000 |
| Forests, paper pulp, saw mills | 325,000,000 | 60,000,000 |
| Mining | 235,000,000 | 100,000,000 |
| Public utility and service | 138,000,000 | 116,000,000 |
| Railroads | 370,000,000 | 745,000,000 |
| Fisheries | 6,000,000 | 3,000,000 |
| Banking and insurance | 35,000,000 | 80,000,000 |
| Mortgages | 25,000,000 | 85,000,000 |
| Land | 50,000,000 | 100,000,000 |
| Total | \$ 2,425,000,000 | \$ 1,890,000,000 |

TYPES OF AMERICAN INVESTMENTS

Close to \$4,000,000,000 of the total of American investments abroad are in the form of loans to foreign governments. The purposes for which these loans have been granted vary greatly. The larger part of them have been extended for the building of public works and improvements. In addition to these purposes, however, are the Morgan loans to France for the purpose of stabilizing the franc, the Dawes loans to Germany and relief loans to Greece. The interest on these private loans to foreign governments range, from 3½ per cent to 8 per cent, the average yield being probably around 7 per cent.

The largest proportion of American overseas investments, however, is in foreign business and industry. The amount invested in private foreign enterprise is probably between \$5,500,000,000 and \$6,000,000,000. This amount includes direct investments, as well as industrial securities held by American nationals. In addition to these permanent investments about \$1,000,000,000 is in the form of short-term foreign loans. The American investor prefers government-guaranteed obligations to securities which rest solely on the credit of the industrial concern. This is especially true of the conservative investor in the securities of the older countries. The following table shows the propor-

tions of government-guaranteed obligations and those of other classes of investments for the various regions:

| | Guaranteed Obligations | Other Investments |
|----------------------------|---------------------------|----------------------|
| Canada | 41% | 59% |
| Latin America | 21% | 79% |
| Europe | 73% | 27% |
| Asia and rest of world ... | 59% | 41% |

GOVERNMENT OBLIGATIONS STATEMENT OF FOREIGN

In addition to the large amount of private capital invested in foreign countries are the obligations of foreign governments held by the government of the United States. The total of the principal of these obligations amounts to \$11,763,515,917. The government obligations held by the United States include not only the war loans to the allied governments, although these constitute by far the larger proportion of the obligations, but also post-war loans to many other countries of Europe. These government debts have all been funded with exception of Rumania, Austria, Russia, Greece and Liberia. The present value of these obligations are in reality greatly below the principal of the amounts funded.

The table below shows the principal of the debt obligations of the various countries and the present value of the funded government debts using the figure of 4¼ per cent as the cost of money to the United States.

PRINCIPAL AND PRESENT VALUE OF FUNDED GOVERNMENT DEBTS

| Former Allied Governments | Principal | Present value of debt settlements |
|--|--------------------------|-----------------------------------|
| England | \$ 4,600,000,000 | \$ 3,788,470,000 |
| France | 4,025,000,000 | 1,996,509,000 |
| Belgium | 417,780,000 | 225,000,000 |
| Italy | 2,042,000,000 | 528,192,000 |
| Total | \$ 11,084,780,000 | \$ 6,538,171,000 |
| Funded Obligations of Other Governments | | |
| Poland | \$ 178,560,000 | \$ 146,825,000 |
| Czechoslovakia | 115,000,000 | 91,964,000 |
| Rumania | 44,590,000 | 35,172,000 |
| Jugoslavia | 62,850,000 | 20,030,000 |
| Esthonia | 13,830,000 | 11,392,000 |
| Finland | 9,000,000 | 7,413,000 |
| Lithuania | 6,030,000 | 4,967,000 |
| Latvia | 5,775,000 | 4,755,000 |
| Hungary | 1,939,000 | 1,596,000 |
| Cuba* | 10,000,000 | |
| Nicaragua* | 176,000 | |
| Total | \$ 447,750,000 | \$ 324,114,000 |
| Unfunded Obligations | | |
| Armenia | \$ 12,000,000 | |
| Austria | 11,959,917 | |
| Russia | 192,000,000 | |
| Greece | 15,000,000 | |
| Liberia | 26,000 | |
| Total | \$ 230,985,917 | |
| Grand Total | \$ 11,763,515,917 | \$ 6,862,285,000 |

THE NATURE OF FOREIGN INVESTMENT

The process of foreign investment is essentially no different than the domestic investment of capital. Throughout the history of the United States capital from the more wealthy and highly industrialized sections in the East has been invested in railroads, highways, and new industrial enterprises in the less developed sections of the western part of the nation. Pushed by the economic law of diminishing returns the investor chooses the higher return offered by investment in the less developed regions to putting his money in enterprises nearer at home at lower interest rates and profits. Prof. George W. Edwards, of New York University in his recently published book, "Investing in Foreign Securities" has shown that the yield on foreign securities is substantially higher than that on comparable

domestic securities. He points out that the yield on forty representative domestic bonds selected by the Wall Street Journal for its index in June, 1914 yielded an average of 5.31 per cent while at the same time the yield on fourteen typical foreign bonds listed on the New York Stock Exchange average 7.08 per cent.

FOREIGN LOANS AND FOREIGN MARKETS

The granting of loans in foreign countries is intimately related to the development of foreign markets. If, for example, a South American company is in need of construction materials and rolling stock for the building of a railroad it will normally buy the needed goods where credit can be secured with which to pay for the goods. It is often stipulated as a condition of the granting of a loan that the materials be purchased in the lending country. The fundamental reason for borrowing from the United

* The debts of Cuba and Nicaragua were funded independent of the American Debt Funding Commission.

States is to secure dollars with which to pay for materials purchased in the United States. In the case of the South American company, for example, the transaction does not involve the shipment of any gold or specie to South America. The South American company buys American goods and draws upon the credits placed at its disposal by the lending banker in New York in order to pay the manufacturer from whom the goods have been purchased. If satisfactory loans can not be obtained in New York the prospective purchaser will probably transfer his order for materials to some other country where credit is available.

This relation between foreign investment and foreign trade is well recognized by leading business men and government officials. Mr. Willard Straight, as President of the American Asiatic Association, as early as May, 1914, pointed out the necessity of foreign loans as an aid to American export trade. At the National Trade Convention in Washington he said:

"If we expect to realize the full possibilities of our export trade, we must, by our readiness to purchase foreign bond issues, be able to extend to foreign purchasers the accommodation which they now obtain in the markets of our competitors.

"This, roughly, is the problem of the foreign loan and foreign trade. Its satisfactory solution, which is of vital interest to our merchants and manufacturers, depends primarily upon the attitude of the American investors who, while they may not directly benefit by the increased sale of particular American commodities will, in addition to the return on their investment, share in the ensuing prosperity."

"TRADE FOLLOWS THE LOAN"

Mr. A. H. Baldwin, Assistant Manager of the Foreign Trade Bureau of the Guaranty Trust Co. in the monthly foreign trade review of the New York Evening Post declared that: "Trade 'follows the loan' as it 'follows the flag' and, from a purely selfish point of view, it is essential to our interest to build up our export trade by foreign investment." Mr. Grosvenor M. Jones, Chief of the Finance and Investment Division of the U. S. Department of Commerce in an address before the Cleveland Foreign Trade Convention on December 5, 1922, said: "To sustain our foreign trade at normal levels under present conditions the United States

must provide large-scale credits in the form of foreign loans must invest heavily in foreign enterprises."

The United States has rapidly extended its foreign markets for American goods within the last quarter of a century. This has been the inevitable result of the extension of the large scale methods of manufacture and the increased efficiency of American industry which has created a surplus of goods beyond the demands of the domestic market. During the war the United States extended the market for American goods throughout the entire world and since the war it has attempted to retain and develop these newly acquired markets. The trade promotion activities of the Bureau of Foreign and Domestic Commerce of the United States Department of Commerce, whose chief business it is to promote American trade interests abroad have undoubtedly been an important factor in the extension of American overseas trade. The increased importance of the Bureau of Foreign and Domestic Commerce can be seen from the fact that the appropriations for the Bureau increased from \$173,000 in 1913 to \$3,000,000 in 1926.

FOREIGN INVESTMENTS AND RAW MATERIALS

Another important motive to American foreign investment is the desire to secure important raw materials. In spite of its large supply of many of the raw materials essential to modern industry the United States is dependent upon foreign sources for such important commodities as coffee, rubber, silk, nitrates, potash, quinine, tin, sisal and quicksilver. There is also serious concern over the anticipated future shortage of oil and petroleum and American interests have been conspicuous, especially in Mexico, Russia and the Near East, in acquiring or attempting to acquire oil concessions. The feverish struggle for the control of raw materials is due principally to two causes: first, the desire to be economically self-sufficient, and secondly, to be free from dependence upon foreign countries for essential war materials. A third reason is also often given as the protection of American consumers from the high prices of foreign monopolies. The United States Department of Commerce has taken a leading part in encouraging the investment of American capital in foreign enter-

prises for the production of raw materials. The proposed projects of the Firestone interests for the development of rubber growing in Liberia and the Philippines is an outstanding example of the desire to secure control of essential raw materials through foreign investment.

QUESTIONS OF FOREIGN POLICY

The extension of American foreign trade and investment has naturally caused vigorous criticism, both in America and abroad, of the dangers of a developing American imperialism. Anti-imperialists point to American intervention in the affairs of the Caribbean Republics, Mexico, and Central and South America as examples of dangerous imperialistic activity. Even so pronounced a conservative as Dr. Henry Carter Adams has declared that "the granting of foreign credit is the first step toward the establishment of an aggressive foreign policy and under certain conditions leads inevitably to conquest and occupation." Other writers are even more extreme in pointing to American "dollar diplomacy" and declaring that the United States is already the leading imperialist nation of the world. On the other hand many prominent business and political leaders assert that the United States Government does not go far enough to protect the property of its nationals in foreign countries. Mr. M. L. Schiff, for example, in "Foreign Securities and the American Investor," laments that nothing has been done to safeguard the rights of the American investment public "not even to the extent of seeing that customs duties specially pledged to bond holders have been made available to them."

GOVERNMENT LOAN POLICY

It is not the purpose of this report to deal with the controversial issues involved in the disputed question of American imperialism beyond suggesting the difference of opinion that exists. The official policy of the United States Government with respect to American loans to foreign countries has been confined to rather loose supervisory powers. The United States Government has been extremely reluctant to formulate an official policy of foreign investment. In contrast to the type of legislation employed by France and to a less extent the German Empire before

the war, the United States has followed for the most part, at least in its public pronouncements the policy of "laissez faire" with respect to the regulation of American private loans. At a conference in Washington in the summer of 1921 between the President, certain members of the Cabinet and a number of investment bankers, President Harding expressed the desire of the government to be adequately informed of foreign loan transactions before their consummation, "so that it might express itself regarding them, if that should be requested or seem desirable." In a press release on March 3, 1922 the Government repeated this request. The statement of the Department of State at this time reads in part as follows:

The flotation of foreign bond issues in the American market is assuming an increasing importance and on account of the bearing of such operations upon the proper conduct of affairs, it is hoped that American concerns that contemplate making foreign loans will inform the Department of State in due time of the essential facts and of subsequent developments of importance. . . . American concerns that wish to ascertain the attitude of the Department regarding any projected loan should request the Secretary of State, in writing, for an expression of the Department's views. The Department will then give the matter consideration and, in the light of the information in its possession, endeavor to say whether objection to the loan in question does or does not exist. . . .

The Department of State can not, of course, require American bankers to consult it. It will not pass upon the merits of foreign loans as business propositions, nor assume any responsibility whatever in connection with loan transactions. Offers for foreign loans should not, therefore, state or imply that they are contingent upon an expression from the Department of State regarding them, nor should any prospectus or contract refer to the attitude of this Government. The Department believes that in view of the possible national interests involved it should have the opportunity of saying to the underwriters concerned, should it appear advisable to do so, that there is or is not objection to any particular issue.

SUPPLEMENTARY STATEMENTS OF GOVERNMENT POLICY

The policy announced by the State Department on March 3, 1922 has been supplemented by statements subsequently made by the Secretaries of State and Commerce, and by Ambassador Houghton in London. The conditions under which the United States Government will approve of loans, accord-

ing to these announcements have been summarized by Mr. Louis E. Van Norman, Commercial Attaché of the Bureau of Foreign and Domestic Commerce, in an address before the Academy of Political and Social Science in May, 1926, as follows:

1. "The purpose for which the funds are used shall be identified with economic development—not war."

2. "They shall not be applied to sustain or develop government monopolies, (controls) of raw materials essential for the normal peacetime consumption of our own people."

Secretary Hughes in August, 1923 expressed the policy of the United States in the following words:

It must be remembered that the government of the United States has no power to compel its citizens to lend money or to fix the terms of their investments, nor is it in a position to control the action of other governments who desire to borrow. In this situation our government endeavors by friendly advice to throw its influence against unfairness and imposition, and it has at times with the consent of the parties, indeed at their instance, agreed to a measure of supervision in and maintenance of security for loans which otherwise would have been denied or would have been made at oppressive rates.

Ambassador Houghton in an address in London at the time he assumed his duties of Ambassador to the Court of St. James made the following statement generally interpreted as an expression of the loan policy of the American Government by saying:

The full measure of American helpfulness can be obtained only when the American people are assured that the time for destructive methods and policies has passed and that the time for peaceful upbuilding has come. They are asking themselves if in fact that time has arrived. And that question they can not answer today.

The answer must be given to them. It must come from the peoples of Europe who alone must make the decision. If the answer is peace, then you may be sure that America will help to her generous utmost. But if, which God forbid, that answer should continue confused and doubtful, then I fear that those helpful processes which are now in motion must inevitably cease. We are not as a people interested in making speculative advances. We can undertake only to help those that help themselves.

In explaining the policy of the Government, Mr. A. N. Young, Economic Adviser of the State Department, in an address at the Institute of Politics at Williamstown in 1925 said:

Agreements for the flotation of foreign loans

are essentially of public character. One country might borrow in the United States to build a warship or to equip itself for aggression against a friendly neighbor. A Government which states it is unable to make payments upon its indebtedness to the government of the United States might seek to borrow for unproductive purposes, or American interests might propose arrangements involving the possibility of economic exploitation which would be likely to prejudice good relations between the United States and the particular country.

SUPERVISION OF THE DEPARTMENT OF COMMERCE

Although there has been no official announcement of a general policy by the Department of Commerce, there is little doubt that the State Department is influenced in deciding whether a loan is for a productive or a non-productive purpose by the attitude of the Department of Commerce. In addition to this indirect influence the Department of Commerce has taken an active part on certain occasions against the granting of particular loans. When the Brazilian coffee interests applied for a loan on the New York market, Secretary Hoover prevented the loan from being made by issuing the following statement:

"The Administration does not believe the New York banking houses will wish to provide loans which might be divided to support the coffee speculation which has been in progress for the past year at the hands of the coffee combination in Sao Paulo, Brazil. Such support would simply bolster up the extravagant prices to the consumer."

ANNUAL OBLIGATIONS TO THE UNITED STATES

Because of the extent of American investment abroad the question has naturally arisen as to how these obligations are to be repaid. By the terms of the debt funding agreements the United States is due to receive the following total average annual payments from the debtor governments:

| | |
|----------------------------------|----------------|
| For the first five years | \$ 213,523,120 |
| Next forty-five years | 357,782,819 |
| Next twelve years | 414,641,458 |

In addition to these payments on the account of the money loaned by the United States Government is the interest to be received by private American investors on investments of \$11,000,000,000. If the average rate of return on these investments is as

sumed to be 6 per cent the annual interest payments alone would amount to \$660,000,000 a year*. Thus the total annual payments due the United States Government and private American investors would aggregate approximately \$1,000,000,000 a year.

THE BALANCE OF PAYMENTS

The dollars with which to make these large annual payments can only be obtained either by shipping goods of the value of the payments to the United States or by further borrowing. The impossibility of foreign governments making such large payments to the United States in the form of commodities without a fundamental alteration in the international trade relations of the United States is seen by referring to the balance of international payments. In 1924 the official statistics of imports and exports show that the United States exported about \$4,500,000,000 of merchandise and imported merchandise to the amount of approximately \$3,600,000,000 leaving a favorable balance of trade of almost \$1,000,000,000 on the movement of recorded merchandise. On the current invisible items, which include the funds paid out in foreign countries through tourists, the remittances of immigrants, and payments for such services as shipping, the United States had an unfavorable balance of \$388,000,000 which reduced the favorable balance of international payments (including merchandise and "invisible" items) to \$582,000,000.

If the United States were to receive annually the total amount of payments due on account of government debt-funding and interest at the rate of 6 per cent on its private investments abroad without additional borrowing, the favorable balance of more than 500,000,000 a year would have to be transformed into an unfavorable balance of payments of \$1,000,000,000 a year. Such a sudden reversal of the trade relations of the United States is not considered even as a remote possibility by any one familiar with international commercial transactions. It is doubtful if foreign countries under existing economic conditions

could produce the kind of commodities that would bring about such a change in trade relations to say nothing of the difficulties of shipping them into America over the high tariff wall. Moreover, American industry under the leadership of the Department of Commerce is engaged in an aggressive campaign of seeking new markets and increasing the volume of its exports.

THE FUTURE OF FOREIGN INVESTMENTS

It is apparent that the interest and capital payments due to the United States within the next few years can be made only if the United States continues to extend credit to foreign countries. The annual interest payments on private investments abroad will doubtless continue to be re-invested in foreign countries and it will be necessary for foreign nations to borrow heavily from the United States in order that the debtor governments may have dollars with which to meet their annual payments to the United States. The export of capital from the United States and the continued increase of foreign indebtedness to the United States is therefore likely to continue for an indefinite period. This is a similar process to that which England went through in the last half of the 19th century and the first quarter of the 20th centuries when British foreign investments grew from \$3,000,000,000 in 1860 to about \$20,000,000,000 in 1920.

ADVANTAGES AND DISADVANTAGES OF FOREIGN INVESTMENT

It is obviously impossible to predict the future course of international credit relations or to foretell all the consequences that might derive from the changed position of the United States. Mr. John Foster Dulles, an Economic Adviser at the Peace Conference, has hazarded that American overseas investments may "run up into \$30,000,000,000, \$40,000,000,000 or \$50,000,000,000." This is not at all improbable in view of present international economic conditions and tendencies. What use America will make of this power and what advantages and disadvantages can be expected from it are questions of the greatest concern. Prof. George W. Edwards, of New York University, in "Investing in Foreign Securities," has made

* Six per cent is a purely arbitrary figure. There is no way of accurately estimating the return on American investments abroad.

a very careful analysis of the advantages and disadvantages of foreign investment. A

statement of his conclusions in summarized form is as follows:

DISADVANTAGES

ADVANTAGES

INDIVIDUAL VIEWPOINT

| | | |
|---------------------|---|---|
| Investor | Incurs undue risk | Receives higher yield. Obtains greater safety through diversification. |
| Business Man | Encounters increased foreign competition. Pays higher cost of money. | Obtains foreign markets. |
| Worker | Obtains less employment. | Gains greater employment, for foreign markets increase demand for American goods. |

NATIONAL VIEWPOINT

| | | |
|------------------------------|---|--|
| Price Level | Overlending leads to inflation and higher prices. But inflation follows from domestic as well as foreign overlending. | Assures sources of raw materials and lower prices. |
| Supply of Capital | Defaults cause net loss of capital. Foreign investments become unreturnable annuities. | Higher interest rate stimulates savings and so increases capital. Creates greater national income and so greater purchasing power. |
| Balance of Trade | Creditor forced to accept foreign goods in payment and endure unfavorable balance of trade. | Does not need to restrict consumption and (a) in normal times can afford to buy goods from abroad; (b) in emergency can meet unexpected foreign obligations. |
| Political Consequence | Foreign investment results in imperialism. | Foreign investment avoids provincialism. |

SELECTED LIST OF REFERENCES

Adams, Henry C.: *International Supervision over Foreign Investments*, with discussion. American Economic Review, March, 1920, v. 10, sup.:58-68.

American Capital Abroad. United States Investor, May 27, 1911, v. 22:892.

American Capital Invested Abroad. Review of the foreign press, April 15, 1921, p. 411.

American Investments in Foreign Countries, Bibliography. U. S. Library of Congress. Div. of Bibl., Washington, 1916. December 13, 1922.

American Investments in the Obligations of Foreign Governments. Economic World, January 11, 1919, n. s. v. 17:55.

American Investors and Foreign Bonds. World's Work, August, 1922, v. 44; 361-362, and September, 1921, v. 42:437-438.

Annals of the American Academy of Political and Social Science. *America's Changing Investment Market*. Philadelphia, The Academy of Political and Social Science, 1916. Vol. LXVIII, No. 157.

Apportioning American Capital: Relation of foreign investment and foreign trade. Commerce Monthly, v. 1, May 1919: 3-13.

Breton, A.: *Government Protection of Foreign Investments*. Scribner's magazine, March, 1919, v. 65:385-388.

Bullock, C. J.: *The Balance of Trade of the United States*. Review of Economic Statistics, 1919, pp. 215-266. Collab. with R. S. Tucker and J. H. Williams.

Corbin, A. O.: *The Investment of American Capital Abroad*. Bankers' Magazine, July, 1919, v. 99:54-57.

Crissinger, D. R.: *The Financial Contribution of the United States to the Rehabilitation of the World Since the War*. Economic World, September 16, 1922, n.s.v. 24:413-414.

Demangeon, Albert: *America and the Race for World Dominion*. N. Y., 1921.

Dewey, B. R.: *Financial History of the United States*, (8th ed., N. Y. 1922) pp. 47-48, 57, 89.

Dunn, Robert W.: *American Foreign Investments*, N. Y., 1926.

Edwards, George W.: *Investing In Foreign Securities*, N. Y., 1926. *American Policy with Reference to Foreign Investments...* American Economic Review, Vol. XIV, No. 1 Supplement. March, 1924, pp. 26-35.

Feis, Herbert: *The Export of American Capital*. Foreign Affairs, (N. Y.), 1925. Vol. III, pp. 668-686.

Field, Frederick W.: *Capital Investments in Canada*; some facts and figures respecting one of the most attractive investment fields in the world. Montreal, The Monetary Times of Canada (1911).

Foreign Bondholders Here may Need to Organize. Wall Street Journal, May 15, 1922, p. 9.

Foreign Bond Issues Floated in the United States During the First Half of 1922. Economic World, July 29, 1922, n.s.v. 24:159.

Foreign Loans. Hearings before the sub-committee of the Committee on Foreign Relations, U. S. Senate 68th Congress, 2nd Session, pursuant to S. Con. Res. 22 Relative to engaging the responsibility of the Government in financial arrangements between its citizens and sovereign foreign governments. Washington Gov't. Printing Office, 1926.

Funded Obligations of Foreign Governments. American Bankers' Association Division of commerce and marine. Leaflet. N. Y. 1926.

Guaranty Trust Company of New York. *America's Opportunity in Foreign Investments.* (New York.) N. Y. (1919).

Halsey, Frederick M.: *Latin American Investment Opportunities.* Magazine of Wall Street, July 24, 1915, v. 16:420-422.

Railway Expansion in Latin America; descriptive and narrative history of the railroad system of Argentina, Peru, Venezuela, Brazil, Chile, Bolivia and all other countries of South and Central America. New York, The Moody Magazine and Book Co., 1916.

The Railroads of South and Central America; a manual containing statistics and other information concerning the important railways of South and Central America, Mexico and the West Indies. 1914 ed. New York City, Francis Emory Fitch, (1914) 183 p.

Hobson, Charles K.: *The Export of Capital.* London, Constable and Co., 1914.

Hobson, J. A.: *An Economic Interpretation of Investment.*

Hornbeck, S. K.: *Trade, concessions, investments conflict and policy* Academy of Political Science, New York. Proceedings, July, 1917, v. 7: 604-622.

Howe, F. C.: *Dollar Diplomacy and Imperialism.* Academy of Political Science, New York. Proceedings, July, 1917, v. 7:597-603.

Investment of American Capital in Europe and its Probable Effect upon American Foreign Policy. Symposium by: Hon. Breckenbridge Long, Washington, D. C. Harry T. Collings, University of Pennsylvania. George W. Edwards, New York University. Hon. Franklin W. Fort, M. C., Washington, D. C. Hon. Henry Rathbone, M. C., from Illinois. Louis E. Van Norman, Commercial attaché, Bureau of Foreign and Domestic Commerce, Department of Commerce, Washington, D. C. The Annals of The American Academy of Political and Social Science.

Investment Opportunities in Latin America. U. S. Bureau of Foreign and Domestic Commerce. Commerce Reports, December 9, 1918, No. 288:929-932.

Kahn, Otto H.: *The Myth of American Imperialism,* Committee of American Business Men, 1924.

Kent, Fred I.: *Foreign Investments In Their Relations To The Future Of This Country.* Address before the Maryland Bond Buyers' Assn., Baltimore, February 27, 1919.

Kies, William S.: *Foreign Investments As An Aid To Our International Trade.* Economic World, October 26, 1918, n. s. v. 16:585:587.

Latin American Securities. American Academy of Political and Social Science. Annals, March, 1920, v. 88:144:155.

Lamont, Thomas W.: *Investments In Foreign Issues.* Commercial and Financial Chronicle, October 9, 1920, v. 111:1437-1438.

Lenin, Nikolai. *Imperialism, The Financial Stage Of Capitalism.* Boston Progress Printing Co., 1917.

Moon, Thomas Parker: *Syllabus On International Relations.* N. Y., 1925.

Nearing, Scott: *Dollar Diplomacy,* N. Y., 1926.

Noyes, Alexander Dana: *Thirty Years of American Finance,* N. Y. 1898. *Forty Years of American Finance,* N. Y. 1909. *The War period of American Finance,* N. Y. 1926.

Paish George. *Great Britain's Capital Investments In Other Lands.*

Roorbach, G. B.: *Some Recent Tendencies In The Development Of The Foreign Trade of The United States,* Review of Economic Statistics, 1920, pp. 125-137.

Scott, W. A.: *The Repudiation of State Debts,* N. Y. 1893.

Sheldon James. *Need For American Investment In Foreign Securities.* American Academy of Political and Social Science. Annals, March, 1920, v. 88: 114-120.

Speyers, James: *International Finances A Power For Peace.* N. Y. 1911.

Straight, Willard D.: *Foreign Trade and Foreign Loans.* Address, N. Y. 1914.

Tucker, R. S.: *The Balance of Trade Of The United States,* Review of Economic Statistics, 1919, pp. 215-266. (C. J. Bullock and J. H. Williams).

Turner, Raymond: *Repudiation Of Debts By States of the Union.* Current history, Vol. XXIII (1925-26) pp. 475-480.

U. S. Dept. of Commerce. *Investments In Latin America And The British West Indies,* by Frederic M. Halsey. Washington, Gov't. print. off. 1918-544p.

Bureau of Foreign and Domestic Commerce. B. S. Cutler: Special agents series, No. 169.

U. S. Dept. of Commerce, Bureau of Foreign and Domestic Commerce. *"Balance of International Payments in 1923, 1924, 1925."*

Investments in Latin America. Frederick M. Halsey, Special Agent, and G. Butler Sherwill, Finance and Investment Division.

Viallate, Achille. *Economic Imperialism And International Relations During The Last Fifty Years.* N. Y. 1923. Chap. III.

Warburg, Paul M. *"Investment of American Capital Abroad."* Remarks at the dinner of Council on Foreign Relations, New York, April 2, 1919. (Washington, D. C., 1919)

Weyl, Walter E.: *American World Policies.* (New York, 1917), especially Chap. IV. "An Unripe Imperialism."

Williams, J. H. *"The Balance of Trade of the United States."* Review of economic statistics, 1919, pp. 215-266. (C. J. Bullock and R. S. Tucker).

Withers, Hartley: *International Finance,* London, 1916.

